

effective rate. This may be supported by the lower ROA (9.74) and ROS (7.31) for domestic U.S. subsidiaries when compared with their Canadian subsidiaries (14.56 and 10.57 respectively).

However, there is disagreement as to which tax rate is the better determinant of income shifting. The statutory rate is preferred by Grubert and Mutti (1991) because it is prior to any non-transfer-pricing-related adjustments to the effective rate. Therefore, income should be shifted by Canadian TNCs to their U.S. subsidiaries, and by Canadian subsidiaries to their U.S. parent TNCs, due to the significant differences in their statutory tax rates. This is not supported by the rates of return reported by the TNCs in this study. If income shifts are occurring, it is due to the effective, and not the statutory, tax rate differentials.

As shown in Table 6 (Panel B), an analysis by transfer pricing method shows no relationship with financial factors, so the final hypothesis cannot be rejected. Five of the seven rates of return were higher for non-market TNCs, but none were significantly different from those of market TNCs.

When compared by both method and country in Table 6 (Panel C), the patterns found in the comparison by country are found in market TNCs, by country. All U.S.-TNC associated rates of return are higher than Canadian returns, and market Canadian subsidiaries, whether foreign or domestic, have higher return rates than their U.S. counterparts. Differences between Canadian and U.S. market TNCs, however, are not significantly different. For non-market TNCs, as before, all U.S. returns are higher than, and many are